RECORD AND BRIEFS

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Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, et al.,

Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF FOR INTERDIGITAL, INC.; POWER INTEGRATIONS, INC.; XPERI CORPORATION; FALLBROOK TECHNOLOGIES, INC.; AND CUMMINS-ALLISON CORP. AS AMICI CURIAE IN SUPPORT OF PETITIONER

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INTERESTS OF AMICI CURIAE

Amici are leaders in the development of technologies that drive some of the most dynamic sectors of the American economy.[1] They invest heavily in research and development of a variety of new technologies, which they often license to other companies that embed the technologies in end-user products. Accordingly, they rely on the patent system to protect their investment in the development of their intellectual property and fund the next wave of innovation.

InterDigital, Inc. ("InterDigital"), based in Wilmington, Delaware, has been a pioneer in mobile technology and a key contributor to global wireless communication standards for over four decades. The company's patented innovations have been critical to the deployment of wireless networks.

Power Integrations, Inc. ("Power Integrations"), based in San Jose, California, is a top innovator in the high-voltage power conversion market. It has built a portfolio of patented products designed to make power converters smaller, simpler, more reliable, easier to design and manufacture, and more energy-efficient.

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[1] The parties have consented to the filing of this amicus brief. No counsel for a party authored this brief in whole or in part, and no party, counsel for a party, or any other person except for amici curiae, their members, or their counsel made a monetary contribution intended to fund its preparation or submission.

Xperi Corporation ("Xperi"), based in San Jose, California, is a more than 25-year-old, publicly-traded product and technology company that researches and develops audio, imaging, and semiconductor technologies. Xperi licenses its technologies and the patents that protect them to its customers, who use those technologies in their own products. For example, its DTS HD Radio® audio technology is licensed throughout the radio broadcasting ecosystem and enables the digital broadcast of local AM/FM stations in automobiles. Its FotoNation imaging technology enables numerous features in smartphone and other digital cameras, such as red eye removal, face detection, and image stabilization. And its Tessera and Invensas semiconductor technologies enable the advanced packaging and bonding of semiconductor products. Xperi's solutions are licensed in more than 5 billion consumer electronic devices, and more than 100 billion semiconductor chips worldwide.

Fallbrook Technologies Inc. ("Fallbrook"), based in Cedar Park, Texas, develops and licenses mechanical energy management solutions for the transportation industry and manufactures and sells advanced bicycle transmissions. Fallbrook's energy management solutions enable vehicles to better achieve tough gas mileage and emissions standards.

Cummins-Allison Corp. ("Cummins Allison"), based outside Chicago, Illinois, designs and manufactures high speed currency and coin handling solutions, including currency scanners, coin sorters, document imaging equipment, and other advanced

monetary processing systems. As the sole remaining U.S.-based developer and manufacturer of coin and currency processing equipment, efficacy of the U.S. intellectual property infrastructure is critical to Cummins Allison's ability to provide technology which meets the demands of financial, gaming, retail, and law enforcement clientele worldwide.

Amici have a profound interest in the outcome of petitioner's challenge to the *inter partes* review procedure of the U.S. Patent and Trademark Office ("IPR"). Collectively, amici invest hundreds of millions of dollars annually in research and development related to their core technology areas, and they have thousands of U.S. patents (and even more worldwide) in their respective fields. They rely on the stability and certainty of patents as property rights in order to fuel their innovation.

Many of the amici have seen first-hand the perverse and destabilizing effects of IPRs. For instance, some have won judgments against patent infringers in Article III courts and in arbitration, only to face the potential erasure of these judgments and their intellectual property rights in proceedings before an administrative agency, in some cases based on the very same prior art that the courts considered and rejected. Whether IPRs are constitutional is therefore of great significance to amici. Their experiences with IPR help to demonstrate that the answer is no.

SUMMARY OF THE ARGUMENT

As petitioner persuasively argues, IPRs violate Article III and the Seventh Amendment because they permit an executive branch agency to adjudicate challenges to patent rights, which are private property rights that patent owners are entitled to have tried before an Article III court and a jury. There is, however, another dimension to the constitutional problem that provides an additional reason to limit the power of the U.S. Patent and Trademark Office ("PTO") to invalidate patents.

The Federal Circuit has held that the PTO's cancellation of a patent must be given effect in litigation so long as any part of that litigation remains pending—*even if* a jury has already determined that the patent is valid *and* that conclusion has already been affirmed on appeal. Thus, adjudicating patent validity through IPRs does not merely deprive patent owners of an Article III forum and their Seventh Amendment right to a jury trial. It also permits the PTO to overturn jury verdicts and unravel final judgments, rendering those constitutional protections meaningless.

The PTO's ability to reopen final judgments itself violates the separation of powers and provides an additional reason why this Court should hold that IPRs are unconstitutional. This aspect of IPRs also exacerbates their negative consequences on the economy and the court system by inhibiting incentives to innovate and increasing opportunities for litigation gamesmanship by patent infringers.

This Court should reverse the judgment below, so that litigation over patent validity returns to the Article III forum where it belongs.

ARGUMENT

I. PATENT INFRINGERS USE PTO PROCEEDINGS SUCH AS *INTER PARTES* REVIEW TO OVERTURN JURY VERDICTS AND UNRAVEL FINAL JUDGMENTS

IPRs are a popular tool for patent infringers embroiled in litigation. They allow infringers to attack the validity of patents in a favorable forum and, if they succeed, to undo determinations by juries and courts that they are liable for infringement. In this way, the PTO's power to cancel patents "goes a long way toward rendering district courts meaningless in the resolution of patent infringement disputes." *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 733 F.3d 1369, 1372 (Fed. Cir. 2013) (O'Malley, J., dissenting from denial of rehearing en banc).

A. The PTO Applies Legal Standards More Favorable To Infringers And Often Invalidates Patents That Were Previously Upheld In Court

As petitioner explains, Article III courts are the traditional forum for adjudicating challenges to patents. An accused infringer may seek a declaratory judgment that a patent is invalid or may

assert the invalidity of the patent as an affirmative defense in an infringement action. *See Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1929 (2015). When construing the patent's claims, the court gives those claims their "ordinary meaning . . . as understood by a person of skill in the art." *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2139, 2142 (2016) (quoting *Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005) (en banc)).

In court, a patent is presumed valid, and a challenger must persuade a jury of the patent's invalidity by clear and convincing evidence. *See Microsoft Corp. v. I4I Ltd. P'ship*, 564 U.S. 91, 95, 111 (2011). If the patent is found invalid, the patent owner is estopped from relitigating the validity of its patent in other cases. *See Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 100-01 (1993) (citing *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 349 (1971)).

There are two main ways the PTO can review and cancel issued patents. First, any person may request *ex parte* reexamination of a patent, which is an interactive process between a PTO examiner and the patent holder to determine whether the patent was properly issued. *See* 35 U.S.C. § 302. In addition, any person may petition the Patent Trial and Appeal Board ("PTAB") to institute an IPR against a patent, which results in an administrative "trial" between the patent holder and the party that filed the petition. *See id.* § 311. In either type of proceeding, if the PTO determines that the patent is invalid, and that decision is affirmed by the Federal

Circuit (or not appealed), the PTO will cancel the patent. *See id.* §§ 307(a), 318(b). *See generally* Br. for Pet'r 5-9.

It is not uncommon for the PTO to cancel a patent that an Article III court or jury has found valid. Patent owners are at a serious disadvantage in PTO proceedings, as the PTO does not presume the validity of challenged patents and instead stacks the deck against patent holders.

The first major difference between judicial and PTO proceedings involves claim construction. As explained, courts construe patent claims according to their ordinary meaning. By contrast, in *ex parte* reexaminations and IPRs, the PTO gives patent claims their "broadest reasonable construction." *Cuozzo*, 136 S. Ct. at 2139, 2142, 2145 (quoting 37 C.F.R. § 42.100(b) and citing, *e.g.*, *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984)). This standard significantly "increases the possibility that the [PTO] will find the claim too broad (and deny it)," *id.* at 2145, as a claim is more likely to be anticipated or obvious in light of prior art if it is broadly construed.

In addition, parties seeking to invalidate a patent have a lower burden of proof in PTO proceedings. In both *ex parte* reexaminations and IPRs, invalidity need only be shown by a preponderance of the evidence, whereas clear and convincing evidence is required in judicial proceedings. *See id.* at 2144 (citing 35 U.S.C. § 316(e)); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427

(Fed. Cir. 1988). The PTO is therefore more likely than a jury to resolve factual disputes in favor of the infringer.[2]

PTO proceedings also significantly restrict the parties' ability to discover and use relevant evidence. In order to promote IPR as a "cost-effective alternative to litigation," a strong "policy exists to limit discovery in AIA proceedings" relative to "the scope of discovery generally available . . . in district court litigation." U.S. Patent and Trademark Office, *Message from Administrative Patent Judges Jacqueline Bonilla and Sheridan Snedden: Routine and Additional Discovery in AIA Trial Proceedings: What Is the Difference?*, USPTO AIA BLOG (Sept. 30, 2014), https://www.uspto.gov/blog/aia/entry/message_from_administrative_patent_judges. In addition, the PTAB allows live witness testimony only "under very limited circumstances." *K-40 Elecs., LLC v. Escort, Inc.*, IPR2013-00203, Paper 34 at 3, (P.T.A.B.

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[2] Judicial review does not remedy these problems. In reviewing the PTO's claim construction, the Federal Circuit applies the same "broadest reasonable interpretation" standard, and it reviews the PTO's factual determinations only for "substantial evidence." *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1279-80 (Fed. Cir. 2015), *aff'd, Cuozzo*, 136 S. Ct. 2131. If the PTO found the patent invalid on obviousness grounds, the Court accepts the underlying factual findings (which include "[w]hat a reference teaches and the differences between the claimed invention and the prior art") if supported by substantial evidence. *Id.* at 1280. Similarly, the PTO's finding that a patent is invalid on anticipation grounds is a factual determination reviewed for substantial evidence. *See Power Integrations, Inc. v. Lee*, 797 F.3d 1318, 1323 (Fed. Cir. 2015).

May 21, 2014); *see also id.* at 3. By contrast, live testimony is, of course, routinely permitted in district court litigation, and it is just the sort of evidence that juries are uniquely qualified to assess.

When a patent infringer is haled into district court, it therefore has strong incentives to file concurrent PTO proceedings to try to invalidate the patent under the laxer agency standards and with a more limited record. According to one study, about 70% of IPR petitions are brought by defendants in patent litigation seeking to challenge the validity of issued patents. *See* Saurabh Vishnubhakat, Arti K. Rai, & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. 45, 46 (2016).

These efforts often lead district courts and the PTO to reach inconsistent results, to the detriment of patent owners. The PTAB frequently disregards the claim constructions of a district court or the Federal Circuit because they are not the "broadest reasonable interpretation" of the claims.[3] This is precisely what happened to petitioner in this case:

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[3] *See, e.g.*, *Seagate Tech. (US) Holdings, Inc. v. Knowa Tech. Corp.*, IPR2014-00683, Paper 47 at 15, 2015 WL 5170256, at *9 (P.T.A.B. Sept. 2, 2015); *Google Inc. v. ContentGuard Holdings, Inc.*, CBM2015-00040, Paper 9 at 20-21, 2015 WL 3920037, at *12 (P.T.A.B. June 24, 2015); *Microsoft Corp. v. VirnetX Inc.*, IPR2014-00612, -00613, -00614, Paper 9 at 6-13, 2014 WL 5320530, at *4-8 (P.T.A.B. Oct. 15, 2014), *modified on rehearing on other grounds*, Paper 12, 2014 WL 5840667 (P.T.A.B. Oct. 30, 2014).

the PTAB disagreed with the district court's claim constructions, construed the patent more broadly, and found that the patent was anticipated by prior art that would not have rendered the patent invalid under the district court's claim constructions. *See* Br. for Pet'r at 12-13.

Amici have also directly experienced the adverse effects such inconsistencies can have on patent holders. For instance, in an IPR involving a subsidiary of amicus InterDigital, the PTAB expressly adopted a construction of a term that was different from a previous construction by a district court. *See ZTE Corp. v. IPR Licensing, Inc.*, IPR2014-00525, Paper 48 at 13 n.4, 2014 WL 10413039 (P.T.A.B. Sept. 14, 2014). And in an *ex parte* reexamination involving amicus Power Integrations, the predecessor to the PTAB "declined to address—or even acknowledge—the district court's claim construction," and came to a contrary conclusion. *Power Integrations, Inc. v. Lee*, 797 F.3d 1318, 1326 (Fed. Cir. 2015).

As catalogued in detail further below, the PTO has on several occasions found patents invalid even though they were previously found valid in court. Where the PTO's invalidity decisions have been affirmed, the PTO has canceled the patents at issue, effectively nullifying jury verdicts and final judgments the patent owners have won.

B. The Federal Circuit Allows PTO Decisions To Trump Adjudicated Patent Rights

Under Federal Circuit precedent, even if an infringer had a full and fair opportunity to litigate the validity of the patent, and the courts have conclusively determined that the patent is valid, the infringer may use PTO proceedings to undo the Article III judgment against it.

1. The protracted litigation between Baxter International, Inc. and Fresenius USA, Inc. provides an astonishing example of how the PTO's decision to cancel a patent can result in the annulment of a final judgment the patent owner has won.

In district court, Baxter won a judgment that one of its patents (the '434 patent) was valid and infringed by Fresenius, and a jury awarded Baxter $14 million in damages. On appeal, the Federal Circuit affirmed these findings, but reversed as to two other patents and remanded for further remedial proceedings. *See Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1293-94, 1299-1300, 1302-04 (Fed. Cir. 2009) ("*Fresenius I*"). *All* issues of liability and damages for *all* of the patents were final after *Fresenius I*. Baxter had a judgment in its favor on the '434 patent, and the only outstanding question on remand was the scope of injunctive and post-verdict relief.

In parallel with the litigation, however, Fresenius asked the PTO to reexamine the '434 patent. After the Federal Circuit's decision in *Fresenius I* affirming the validity of the '434 patent, the PTO found that same patent invalid. The PTO ruled that it was not bound by *Fresenius I* because of the different standards of proof and claim construction applicable in PTO proceedings. The Federal Circuit then affirmed that PTO decision, *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1360-61, 1364-66 (Fed. Cir. 2012), even though it conflicted with the earlier judgment, which had been reaffirmed following the remand, *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712, at *1, *16 (N.D. Cal. Mar. 8, 2012). In other words, although Fresenius had decisively lost its validity challenge in court, the Federal Circuit allowed Fresenius to obtain "administrative nullification of [that] final judicial decision." *In re Baxter*, 678 F.3d at 1366 (Newman, J., dissenting); *see also In re Baxter Int'l, Inc.*, 698 F.3d 1349, 1351-55 (Fed. Cir. 2012) (Newman, J., dissenting from denial of rehearing en banc).

Indeed, the Federal Circuit subsequently vacated the judgment for Baxter after the remand of *Fresnius I*, holding that "[i]n light of the cancellation of the asserted claims of the '434 patent, and the fact that the infringement suit remains pending before this court, . . . Baxter no longer has a cause of action." *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1332 (Fed. Cir. 2013) ("*Fresenius II*"). The Court acknowledged that a PTO decision cannot reopen a final judgment. The Court nevertheless

held that at the time it affirmed the PTO's decision in *In re Baxter*, the *Fresenius* litigation was not "sufficiently final" to prevent application of that decision, since the scope of injunctive relief and post-judgment royalties had not yet been finally resolved on appeal. *Id.* at 1340-41.

The notion that Baxter's judgment was not "sufficiently final" was nonsense. By the time the Federal Circuit affirmed the PTO's invalidity decision, "(1) the district court [had] resolved all issues of validity, infringement, past damages, and the right to post-verdict relief; (2) [the Federal Circuit had] affirmed the resolution of these issues on appeal; and (3) the United States Supreme Court [had] denied Fresenius' petition for a writ of certiorari." *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 733 F.3d 1369, 1373 (Fed. Cir. 2013) (O'Malley, J., dissenting from denial of rehearing en banc). Fresenius had exhausted its ability to litigate validity, liability, or damages in the courts. The Federal Circuit nevertheless allowed the PTO to "erase Baxter's adjudicated right to be compensated for [Fresenius's] infringement." *Id.*

The PTO procedure in *Fresenius* was *ex parte* reexamination, rather than an IPR, but the problem is the same in either case: the patent infringer used administrative proceedings before the PTO to erase

the final judgment of an Article III court, thereby depriving the patent owner of its property rights.[4]

2. The Federal Circuit has magnified this destabilizing consequence of the PTO's invalidity decisions by reaffirming and even extending *Fresenius II*. In *ePlus, Inc. v. Lawson Software, Inc.*, 789 F.3d 1349 (Fed. Cir. 2015), the Federal Circuit again nullified the adjudicated rights of a patent owner based on the PTO's subsequent cancellation of a patent.

ePlus had won a judgment that its patents were valid and that Lawson had infringed. The Federal Circuit affirmed the verdict as to one claim (claim 26 of the '683 patent), but not the others, and remanded for modification of the injunction to the extent it was based on those other claims.

On remand, the district court modified the injunction and also found Lawson in civil contempt for selling redesigned products that infringed claim 26, which violated the original and modified injunction. The court ordered Lawson to pay

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[4] Even before *Fresenius II*, the Federal Circuit vacated a final judgment for money damages where the PTO had determined that the underlying patent was invalid, and the Federal Circuit issued an opinion affirming the PTO decision on the same day that it decided the appeal from the judgment. *See Translogic Tech., Inc. v. Hitachi, Ltd.*, 250 F. App'x 988 (Fed. Cir. 2007); *In re Translogic Tech., Inc.*, 504 F.3d 1249 (Fed. Cir. 2007). In *Fresenius II*, however, the Federal Circuit had affirmed the judgment of patent validity and infringement years before affirming the PTO's invalidity ruling, and nevertheless the second decision was allowed to undo the first one.

compensatory damages of $18 million and coercive daily fines.

While Lawson's appeal from this decision was pending, the Federal Circuit affirmed a reexamination decision by the PTO that invalidated claim 26 of the '683 patent. *See id.* at 1351-54. It then vacated the injunction and contempt order "because both were based on claim 26, which the PTO [had] cancelled," and there was no longer any legal basis to enjoin Lawson. *See id.* at 1351, 1354-56. Because the injunction was not completely "final" at the time the PTO's decision was affirmed, *Fresenius II* supposedly required the contempt sanctions to be vacated as well. *Id.* at 1361.

Significantly, Lawson had never appealed the validity of claim 26 of the '683 patent in the infringement action, and Lawson's "contemptible conduct occurred *before* the PTO invalidated [this claim,] upon which the . . . injunction was predicated." *Id.* at 1368 & n.5 (O'Malley, J., dissenting) (emphasis added). The majority's decision to vacate the contempt order therefore meant "that *any* determination made during an infringement case, even if that specific issue is never appealed, can be nullified by the action of an administrative agency as long as anything" remains to be done in the infringement case on remand. *Id.* at 1370.

As evidenced by the ultimate outcomes in *Fresenius II* and *ePlus*, the Federal Circuit's approach allows the PTO to "displace a judgment of

an Article III court" and transform judicial decisions about patent validity into mere "advisory opinions." *Id.* at 1370. And by refusing to accord finality to judicial decisions, it "encourages defendants to scrap and fight to keep underlying litigation pending in the hope that they will fare better with the PTO and then be able to unravel the district court judgment against them." *ePlus, Inc. v. Lawson Software, Inc.*, 790 F.3d 1307, 1314 (Fed. Cir. 2015) (Moore, J., dissenting from denial of rehearing en banc).

C. The Federal Circuit Exacerbates The Problem By Encouraging Courts To Stay Litigation In Deference To Pending PTO Proceedings Even After They Have Adjudicated Patent Validity

Under the Federal Circuit decisions discussed above, the PTO's cancellation of a patent will trump any contrary decision by a court in litigation so long as any part of that litigation remains pending.[5] The Federal Circuit also makes it easy for infringers to take advantage of this after they lose in court, by encouraging courts to stay litigation even *after* jury

[5] *Fresenius II* acknowledged that finality imposes some limits—for example, an infringer cannot use the cancellation of a patent to recover sums it has already paid to the patent owner pursuant to a money judgment. *See* 721 F.3d at 1340. Nonetheless, at least one district court has vacated a final judgment, entered after a jury trial, pursuant to Rule 60(b)(5) and (6) because it would be "unequitable" to enforce an injunction and money judgment predicated on a cancelled patent. *Flexiteek Americas, Inc. v. PlasTEAK, Inc.*, No. 08-60996-CIV, 2012 WL 5364247, at *1-2 (S.D. Fla. Oct. 31, 2012).

verdicts won by patent owners have been affirmed on appeal, so that concurrent PTO proceedings can undo the judgment. For instance, in *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 996 F.2d 1236 (Fed. Cir. 1993) (unpublished), the Federal Circuit reversed a district court's refusal to stay remedial proceedings in a case in which the plaintiff had obtained a jury verdict that its patent was valid and infringed (which was affirmed on appeal), in deference to PTO proceedings the defendant had subsequently initiated. The Court noted that "if the reexamination decision of unpatentability is upheld" on judicial review, "the injunction would thereby immediately become inoperative," and it further suggested that "if a final decision of unpatentability means the patent was void *ab initio*, then damages would also be precluded." *Id.*

Similarly, in *Ultratec, Inc. v. CaptionCall, LLC*, 611 F. App'x 720 (Fed. Cir. 2015), the Federal Circuit refused to vacate a stay imposed where the plaintiff had obtained a jury verdict of validity and infringement and a $44 million damage award, and the defendant-infringer had petitioned for IPR. *See id.* at 720-23. The Federal Circuit refused to vacate the stay even though the jury had already rendered its verdict. The Court cited *Standard Havens*, suggesting that the PTAB ruling could effectively negate the jury verdict if affirmed. *See id.* at 722.

District courts have also cited *Fresenius II* as a reason to stay an infringement case even though patent validity has already been adjudicated. For instance, in *Warsaw Orthopedic, Inc. v. Nuvasive,*

Inc., No. 3:08-cv-01512-CAB, 2016 WL 4466973 (S.D. Cal. June 15, 2016), the plaintiff had obtained a jury verdict that its patent was valid and infringed, which the Federal Circuit affirmed. But the Federal Circuit also remanded for a new trial on damages, and the PTO subsequently invalidated the patent in *ex parte* reexamination. *See id.* at *1. Citing *Fresenius II*, the district court stayed the proceedings to prevent the plaintiff from collecting its judgment before the PTO's invalidity determination became final. *See id.* at *2-3.

These cases demonstrate that a patent owner's property rights can be abrogated even if it has obtained a jury verdict and the court proceedings will likely terminate before the PTO proceedings do. The litigation is often stayed precisely to ensure that the PTO's cancellation of a patent can trump the decision of an Article III court and/or jury.

D. Amici Have Won Judgments Against Patent Infringers That Were Or Are Now Threatened By *Inter Partes* Review

As some of the world's leading technology companies, amici have experienced firsthand the unfair tactical use of IPRs by infringers to derail judicial proceedings and wrest court victories away from patent owners.

1. An InterDigital subsidiary, IPR Licensing, Inc. ("IPRL"), is the assignee of U.S. Patent No. 8,380,244 ('244 patent), which claims a

dual-mode subscriber unit (such as a cell phone) that can communicate with, and as needed switch between, two kinds of wireless networks--cellular networks and local area networks. IPRL brought an action for patent infringement against ZTE Corporation and ZTE (USA) Inc. (jointly, "ZTE") and obtained a jury verdict finding the asserted '244 patent claims infringed and not invalid (*i.e.*, not anticipated or obvious in light of prior art), resulting in a district court judgment in favor of IPRL. *See InterDigital Commc'ns Inc. v. ZTE Corp.*, No. 1:13-cv-00009-RGA (D. Del.), ECF No. 456.

During the proceedings, ZTE filed an IPR petition challenging the '244 patent. Nearly a year after the jury verdict for IPRL, the PTAB ruled that the asserted patent claims were invalid as obvious in light of the same prior art that the jury had considered and rejected. Thereafter, the district court stayed further proceedings on the '244 patent and withheld decision on ZTE's post-trial motions. *See* Memorandum Opinions, 2016 WL 1073229, at *1, *4-5; 2016 WL 3226011, at *1.

On appeal, the Federal Circuit affirmed the PTAB ruling except with respect to one of the challenged claims, which was remanded for further proceedings. As a result, IPRL has petitioned for certiorari on the same grounds as the petitioner in this case. *See* Petition for a Writ of Certiorari, *IPR Licensing, Inc. v. ZTE Corp.*, No. 17-159 (July 28, 2017). If the PTAB ruling stands, and it maintains that the remanded claim is invalid, then the jury

verdict and judgment won by IPRL on this patent will be a nullity.

2. In *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, No. 3:09-cv-05235-MMC (N.D. Cal.), a jury found that Power Integrations' patents were valid and that defendant Fairchild had willfully infringed those patents. A second jury then awarded Power Integrations $139.8 million in damages for Fairchild's 10 years of infringement. The district court entered final judgment, including prejudgment interest, in the amount of $146.5 million. *See* ECF Nos. 551, 918, 1038. Fairchild has appealed to the Federal Circuit.

After the jury verdict, ON Semiconductor Corporation, which was in the process of buying Fairchild, filed IPR petitions challenging several of Power Integrations' patents, including the patent underlying the Fairchild judgment. The PTAB has instituted IPR proceedings on this patent, raising the possibility that an adverse agency decision could rob Power Integrations of the jury verdict and final judgment in its favor.

3. The potential impact of an IPR is sufficiently serious that Tessera, Inc., a subsidiary of Xperi, was willing to abandon the remaining term of one of its most valuable patents in an attempt to avoid the cancellation of its patent by the PTO. Tessera brought arbitration claims alleging that its former licensee Amkor had failed to pay royalties for its use of Tessera patents, as required by a licensing agreement. The arbitrators, among other things,

found that Amkor owed Tessera royalties for using one of Tessera's patents and rejected Amkor's validity challenge to that patent. Tessera was awarded $128 million, and a California appeals court affirmed the award. *See Amkor Tech., Inc. v. Tessera, Inc.*, No. A139596, 2014 WL 6677363 (Cal. Ct. App. Nov. 25, 2014).

While the arbitration proceedings were pending, Amkor filed an IPR petition against the patent in an effort to undermine the arbitration award. The PTAB agreed to initiate review. Had the PTAB cancelled Tessera's patent in the IPR proceedings, it would not only have terminated Tessera's patent rights going forward but could also have undermined the enforceability of the $128 million arbitration award for past infringement of that patent. Although the patent had not yet expired, Tessera chose to relinquish its remaining term voluntarily in an attempt to avoid an adverse IPR decision. In doing so, Tessera forfeited prospective royalties for the remainder of the term. *See Amkor Tech., Inc. v. Tessera, Inc.*, IPR2013-00242, Paper 129 at 2, 2014 WL 2135965 (P.T.A.B May 22, 2014).

Tessera's willingness to make the difficult decision to forego the remaining term on one of its most valuable patents further highlights the extent to which IPRs compromise the rights of patent holders.

II. THE PTO'S NULLIFICATION OF FINAL JUDGMENTS MAGNIFIES THE SERIOUS CONSTITUTIONAL PROBLEMS RAISED BY *INTER PARTES* REVIEW

As petitioner's brief explains, IPRs violate Article III and the Seventh Amendment by allowing an executive branch agency to adjudicate challenges to patent rights that must be tried in court before a jury. This problem is inherent to the IPR process and arises whenever an IPR is instituted. It is not, however, the only constitutional problem. That IPRs can *undo* jury verdicts and final judgments is an affront to the separation of powers and provides further reason to limit the power of the PTO.

Article III "gives the Federal Judiciary the power, not merely to rule on cases, but to *decide* them, subject to review only by superior courts in the Article III hierarchy." *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 218-19 (1995). In other words, the "judicial Power" that the Framers conferred on the federal courts is the power "to render dispositive judgments." *Id.* at 219 (quoting Frank H. Easterbrook, *Presidential Review*, 40 CASE W. RES. L. REV. 905, 926 (1990)).

For this reason, "Congress cannot vest review of the decisions of Article III courts in officials of the Executive Branch." *Id.* at 218. "Judgments, within the powers vested in courts by the Judiciary Article of the Constitution, may not lawfully be revised, overturned or refused faith and credit by another Department of Government." *Chicago & S. Air*

Lines, Inc. v. Waterman S.S. Corp., 333 U.S. 103, 113 (1948). It has therefore "been the firm and unvarying practice of [Article III] Courts to render no judgments not binding and conclusive on the parties and none that are subject to later review or alteration by administrative action." *Id.* at 113-114.

The PTO cannot be permitted to overrule the judgment of an Article III court. Even the Federal Circuit acknowledges that "an attempt to reopen a final federal court judgment of infringement on the basis of a reexamination finding of invalidity might raise constitutional problems." *In re Swanson*, 540 F.3d 1368, 1379 n.5 (Fed. Cir. 2008). Nevertheless, through IPRs, infringers are able to relitigate issues of patent validity that have been conclusively resolved by the courts. Under current Federal Circuit precedent, so long as ancillary proceedings of any sort are pending in court, an IPR has the potential to negate the effect of a prior Article III judgment, which would otherwise be binding between the parties nationwide. This transforms judicial decisions into mere advisory opinions that can be "revised and controlled" by the executive branch. *Hayburn's Case*, 2 U.S. 408, 2 Dall. 409 (1792). Article III does not permit such a procedure.

III. THE PTO'S NULLIFICATION OF FINAL JUDGMENTS ENCOURAGES LITIGATION GAMESMANSHIP AND UNDERMINES ECONOMIC INCENTIVES TO INNOVATE

1. The use of PTO proceedings such as IPRs to cancel patents invariably lowers the

economic value of these intellectual property rights and slows the pace of innovation. Companies in R&D-intensive industries such as amici have little incentive to make long-term investments in the exploration and creation of new technologies unless they can be sure that the resulting patents, which enable them to recoup and profit from these investments, are protected, stable property rights. Reliance on a patent to build a business or issue licenses is "similar to a property owner building a house based on the issuance of a deed to the property. A reversal of the patent, or of the deed, after the fact impacts the investments made in the invention." Richard Baker, *America Invents Act Cost the US Economy over $1 Trillion*, PATENTLYO (June 8, 2015), http://patentlyo.com/patent/2015/06/america-invents-trillion.html.

Much has been written about the flaws of IPRs and the corresponding effects on efficiency and due process. *See, e.g.*, Petition for a Writ of Certiorari, No. 16-712, at 19-26, 32-35. By some estimates, the threat of IPR has destroyed $546 billion in patent value and wiped out about $1 trillion in corporate value by devaluing companies holding those patents. *See id.* at 33 (citing Baker, *supra*). These estimates do not include the secondary effects of this loss in value on innovation, finance, and employment. *See id.* IPR procedures also deprive patent owners of adequate notice and a sufficient opportunity to be heard.[6] *See id.* at 3, 21-

[6] Two Federal Circuit judges recently wrote to "express [their] concerns" about the PTO's "practice of expanding panels [in

22. And IPRs are used as a tactical device not only by infringers who want to avoid liability, but also by hedge funds seeking to short the stocks of patent holders, *see id.* at 34, and shake-down outfits who threaten IPRs in order to extort payoffs from patent owners.

2. These problems are aggravated, with little offsetting benefit, because the PTO's decisions are allowed to trump *judgments* won by patent holders. As Judge Newman observed in her dissent from the denial of rehearing en banc in *Fresenius II*, "reducing the reliability of the patent grant, even when the patent has been sustained in litigation," necessarily "weaken[s]" the "incentive for the creation, development, and commercialization of new technology." 733 F.3d at 1382. If patent owners cannot even rely on the verdicts and judgments they win against infringers, enforcing patents through litigation becomes a waste of money. And if patents cannot be enforced in a cost-effective manner, the

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(continued...)

IPR proceedings] where the PTO is dissatisfied with a panel's earlier decision." *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co., Ltd.*, No. 2016-2321, 2017 WL 3597455, at *5-6 (Fed. Cir. Aug. 22, 2017) (Dyk, J., concurring). In another recent decision, the Court castigated the PTAB for "offer[ing] no reasoned basis" for excluding key evidence; identified "[a] number of problems with the [PTAB's] procedures"; and warned that the PTAB could not "insulat[e] it[self] from its APA obligations." *Ultratec, Inc. v. CaptionCall, LLC*, No. 2016-1706, 2017 WL 3687453, at *4-5 (Fed. Cir. Aug. 28, 2017).

exclusive rights conferred by patents become illusory.

Moreover, district courts increasingly are staying patent litigation until the resolution of IPR proceedings because of the danger that a jury trial will be for naught. *See Fresenius II*, 733 F.3d at 1381 (O'Malley, J., dissenting) ("[W]hen trial courts come to understand the fragility of their judgments, stays in the face of reexaminations . . . will become inevitable."). IPRs have "thus far proven to be a successful means for accused infringers to halt patent suits filed against them," as "[l]itigation proceeding in parallel with an instituted IPR is stayed about 82 percent of the time." Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. CHI. L. REV. DIALOGUE 93, 94, 103 (2014); *see also* Vishnubhakat et al., *supra*, at 80 (2016 study indicating that stays are fully denied only a quarter of the time). Stays, of course, "delay[] the resolution of litigation, negatively impacting the ability of patent holders to reap economic benefits from their patents, such as damages awards and royalties." Peggi P. Ni, Note, *Rethinking Finality in the PTAB Age*, 31 BERKELEY TECH. L.J. 557, 567 (2016).

Even without a stay, "alleged patent infringers losing at the judicial courts [have reason] to 'scrap and fight,' prolonging litigation until a PTO determination in their favor can 'unravel the district court judgment against them.'" *Id.* at 576 (quoting *ePlus, Inc.*, 790 F.3d at 1314 (Moore, J., dissenting from denial of rehearing en banc)). For example,

because the Federal Circuit permits appeals of patent liability judgments before damages are calculated, district courts have a powerful "incentive . . . to bifurcate liability determinations from damages and willfulness trials—and all other remedial determinations." *Fresenius II*, 733 F.3d at 1381 (O'Malley, J., dissenting from denial of rehearing en banc). This gives infringers the ability to "drag out the litigation" with "multiple appeals" while they try to invalidate the patent (and any judicial determination of validity) at the PTO. *Id.*

Uncertainty of this sort "increase[s] the pressures on patent holders to settle" and to accept "licensing terms favorable to the licensees." Ni, *supra*, at 578. If they do not, they run the risk of paying for the enormous expense of a jury trial only to see the verdict evaporate if the PTAB comes to a different conclusion on patent validity.

* * * * *

The erosion of patent rights and reduction of their economic value can only hamper technological progress, to the ultimate detriment of the public. The importance of patents as property is a significant reason why, once they are issued, challenges to their validity are the exclusive province of Article III courts, rather than administrative tribunals. That the PTO has been allowed to override the judgments of those courts through administrative procedures like IPRs is simply further proof of the grave threat that IPRs pose to the separation of powers.

CONCLUSION

The judgment of the Court of Appeals should be reversed.

Respectfully submitted,

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